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CENTRAL INTELLIGENCE AGENCY REGULATION**2. ALLOWANCES AND DIFFERENTIALS****A. Principles of Administration**

In order to effectively administer the allowances and differentials authorized in this regulation the following principles or concepts must be recognized. (Only the term "allowance" is used below, but the principles enumerated apply equally to differentials)

(1) Allowances Are Not Base Salary

There is a common tendency to view allowances and base salary as similar kinds of payments. They are not. The monetary amount of a base salary is directly related to the content of the work involved in a particular job. Because it is related to the work itself, the base salary for performing a specific kind of work does not necessarily vary with the geographical location in which the work is performed or necessarily change when other such extraneous factors change. The base salary paid by the Agency is intended to be full compensation for the actual work or service performed. Allowances, in contrast to base salary, are not payments for work or services, but are granted as monetary incentives to accept work in a specific location overseas, and/or as reimbursements for certain expenses which would not have been incurred had the work been performed in the United States. The base salary in every case should be set at a level warranted by the job on its own merits, and then, if justified, allowances should be granted in recognition of the circumstances under which that work will be performed. Allowances may be granted only when circumstances accompanying the performance of a particular job meet the specifications which have been set for each allowance.

(2) Allowances Are Not Bargained-for

Allowances, in further contrast to base salary, are not bargained-for between the individual and the Agency. Bargaining for allowances would permit a degree of variation in the allowances granted which would nullify the general equity intended through "average" rates and standards. Because all personnel are equally entitled to receive the allowances for which they are eligible, the fairness of the Agency's allowance system would be seriously jeopardized if bargaining between an individual and the Agency were entered-into solely in an attempt to change established allowances to more nearly fit the personal tastes, habits,

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or wishes of one individual. Under the Agency's allowance system there is neither need nor justification for a bargaining process to determine the allowances to which an individual is entitled, for in any given situation, these allowances may be computed automatically within the framework of established rates and standards. It is especially important that all who receive allowances recognize that allowances are not perfectly-tailored payments which meet every person's needs and tastes exactly, and at the same time recognize, that within all possible limits, there is a constant effort to provide allowances which truly meet the purposes for which they have been granted.

B. Types of Allowances and Differentials

Each of the standardized allowances or differentials falls into one of three categories: (1) incentive-type allowances; (2) incentive-type salary differentials; or (3) protective-type allowances. These three categories are described below, together with the various allowances or differentials which comprise them.

(1) Incentive-type Allowances

- (a) Many of the overseas activities of the U. S. Government require the services of qualified persons who are American citizens. Most Americans, however, have a normal reluctance to accept employment which requires them to leave this country and live in a foreign area for an extended period of time, and they usually view overseas employment as less desirable than similar employment in the U. S. Recognizing the importance of its overseas activities, the personnel needs involved, and the problem of persuading individuals to accept such employment, the Government has attempted to enhance the desirability of overseas employment and attract competent personnel by granting overseas personnel an additional economic advantage in the form of free housing.
- (b) When the Government is unable to provide suitable housing, thereby making it necessary for the individual to procure his own, the Government grants a quarters allowance. (The temporary lodging allowance is a similar allowance intended to provide payment for temporary quarters during the period in which permanent quarters are being obtained.) The quarters allowance consists of payment for the amount of the employee's estimate of annual expenses for rent, heat, light, and fuel, or a maximum rate for the locale, whichever is smaller. The maximum rates are

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intended to cover customary expenses of personnel in adequate, but not elaborate or expensive, quarters in the locale involved. Because quarters allowances are based upon "average" factors, differences in individual tastes will be such that the allowance granted will not always fully reimburse all personnel. The quarters allowance is granted only in lieu of providing housing, itself, and the Government has ruled that money received for this allowance shall not be considered taxable income.

- (c) It is necessary to emphasize, that as an incentive, the quarters allowance is never intended as a direct inducement to do a particular type of work but is intended only as an incentive to serve overseas.

(2) Incentive-type Salary Differential

- (a) There are posts overseas where extraordinarily difficult or notably unhealthful conditions or excessive physical hardships exist. There occurs more-than-the-average difficulty in recruiting U. S. personnel to serve at such posts. Because the need for qualified U. S. personnel is equal at all posts, regardless of environmental conditions, the Government has established a recruitment incentive, known as the post differential, to assist the staffing of undesirable posts. Most posts do not warrant payment of a post differential, but when substantial environmental hardship does exist the post is grouped into one of four classes depending upon the estimated degree of hardship. Ratings are made by means of a carefully-developed point scale system based on criteria of extraordinarily difficult living conditions, excessive physical hardship, and notably unhealthful conditions.
- (b) The post differential goes a step further than the temporary lodging and permanent quarters allowances in that the allowances are granted as incentives to work overseas generally while the differential is an incentive to work at a particular place overseas. The factors on which the differential is based are not related to specific costs or expenses as are allowances, and for this reason payments are made in amounts equal to percentages of base salary. The Government has ruled that money received in the form of a salary differential must be considered taxable income.

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(3) Protective-type Allowances

- (a) There is little value in granting economic incentives to employees serving overseas if the financial advantage resulting therefrom is nullified by expenses which are necessarily incurred because of such service. The Government recognizes this, and has established a number of allowances which protect the individual and preserve his incentives by providing for extra payments to equilibrate overseas living expenses with Washington, D. C. expenses, and to meet certain other necessary expenses incurred because of Government-initiated circumstances, or because of other conditions directly related to overseas service. There are four basic allowances of this type:
- (1) The post allowance is a payment made to employees who are assigned to a post where the cost of living (exclusive of quarters) is substantially higher than that in Washington, D. C. It is provided in order that current living expenses will not require the expenditure of a larger percentage of the base salary than would be expended in Washington, D. C. The amount varies in proportion to living costs at the post, salary, and family status, and is based on annual living costs for the "average" government employee.
 - (2) The separation allowance is a payment made to an employee who is compelled to maintain his wife or minor children outside the country of his assignment, by reason of dangerous, unhealthy, or excessively adverse living conditions at the foreign post, or for the convenience of the Government. It is designed to assist an employee to meet the additional expenses when he is required to maintain separate households for himself and for his family.
 - (3) The representation allowance is a payment to defray authorized intermittent or continuing costs incurred by an individual for the enhancement of United States prestige and interests or in maintaining his social position as a representative of this Agency or the U. S. Government at a higher level than would be normal or expected on his base salary.
 - (4) The transfer allowance is a payment made to an employee for necessary expenses, not otherwise

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compensated for, incident to his transfer from one climatic zone to another. This allowance is provided to help offset some of the expenses incurred when such a transfer requires additional purchases of suitable clothing and household furniture and alterations of electrical equipment, etc. The amounts provided are token payments. They are not intended to cover the entire cost of interstate transfers but merely to aid in offsetting it.

- (b) Protective-type allowances are intended only as protection against unwarranted financial losses and must never be viewed as a direct method of increasing personal savings. They are granted primarily to protect the economic incentives provided by the Government to overseas personnel. If the Government granted no protective-type allowances, for example, many overseas employees, in order to liquidate excess expenses incurred solely because of overseas assignment, would find it necessary to meet such expenses with money derived either directly or indirectly from the economic incentives granted them in return for serving overseas. This would destroy completely the effectiveness of such incentives and would result in widespread inequities.
- (c) The Government has ruled that money received from these allowances shall not be considered taxable income.

C. Established Rates and Standards Must Be Followed

Uniform, impartial adherence to the rates and standards established for these standardized allowances and differentials is the single factor which will most nearly ensure that base salary and allowances are not confused, and further, that allowances are granted equitably and are not bargained-for. Standardized rates and standards are based upon carefully-appraised data from which "average" conditions for the "normal" employee are estimated. Because they are designed to meet the needs and wishes of the "average" person, the allowance payments authorized for a given post will rarely coincide exactly with the needs or wishes of any one individual, but will, in fact, more-than-compensate some, and less-than-compensate others. This aspect must be recognized and accepted, both by those who grant, and those who receive standardized allowances and differentials. The entire Government uses a system based on "average" factors in the belief that, among the possible alternatives, this kind of system, if adhered-to uniformly and impartially, achieves maximum equity for the greatest number of people.

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